

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Application of California-American Water
Company (U210W) for Approval of the
Monterey Peninsula Water Supply Project and
Authorization to Recover All Present and
Future Costs in Rates.

A.12-04-019

(Filed April 23, 2012)

RESPONSE TO JOINT MOTION FOR A SEPARATE PHASE 2 DECISION

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Date: April 20, 2016

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Pursuant to Rule 11.1(e) of the Commission’s Rules of Practice and Procedure and the 20 April 2016 ruling of ALJ Burton Mattson, on behalf of ALJ Gary Weatherford, Water Plus timely files this response to the 18 April 2016 Joint Motion for a Separate Phase 2 Decision (“Joint Motion”).

The Joint Motion makes this specific request: “Specifically, the Joint Parties request that the Commission address the following issues in a separate Phase 2 decision: (1) the Water Purchase Agreement (“WPA” or “agreement”) between California American Water (“Cal Am”), MPWMD and MRWPCA, (2) California American Water’s construction of the Monterey pipeline and pump station in advance of a decision on the Certificate of Public Convenience and Necessity (“CPCN”) for the Monterey Peninsula Water Supply Project (“MPWSP”), and (3) financing and ratemaking related to the Monterey pipeline and pump station facilities.” The WPA refers to recycled water, also called groundwater replenishment (“GWR”) produced by the Pure Water

Monterey project proposed by the three agencies cited in the first specific request, above.

This response will deal with each of these specific requests in turn.

Request 1. The WPA. Water Plus is concerned that the WPA will commit Monterey Peninsula ratepayers to pay an exorbitant rate for recycled water for the full period of the agreement, 20 or 30 years, when during that time, perhaps very early during that time, other, far-less-costly options will become available. Significantly, no one has provided a firm cost estimate for the proposed GWR. That being the case, Water Plus has developed an estimate of the cost of the project to Monterey Peninsula ratepayers based on available information. That cost turns out to be truly exorbitant.

That cost may be as high as \$6,000 per acre-foot for Monterey Peninsula ratepayers when accounting for the need of the project to produce 8,500 acre-feet of usable water per year, 3,500 of potable water for Monterey Peninsula customers and 5,000 acre-feet for Salinas Valley growers, who would be charged about \$54 per acre-foot. Call Am has estimated the cost to be \$2,500 per acre-foot for GWR water delivered to it. At \$2,500 per acre-foot for 8,500 acre-feet of water, the total annual cost would be \$21,250,000. Of that, growers would pay \$54 per acre-foot times 5,000 acre-feet, or \$270,000, leaving the remainder to be paid by Monterey Peninsula ratepayers:

\$20,980,000, or \$5,994 for each of their 3,500 acre-feet. That is indeed truly exorbitant, and that is also no small problem for GWR since Cal Am has said GWR product water could cost no more than \$1,325 per acre-foot to make the cost of desal plus GWR equal to or less than the cost of desal alone.

The obvious implication of this scenario is that GWR must not be considered by the Commission separately from desalination. Water Plus is well aware of the pressure of the impending cease-and-desist-order (“CDO”) deadline motivating the Joint Motion. At the same time, Water Plus believes that acceleration of the GWR project simply to show due diligence to the State Water Resources Control Board (“SWRCB”) would be an act of irresponsible desperation. The SWRCB is not unreasonable. Water Plus is absolutely certain that it would not endanger the public health of the citizens of the Monterey Peninsula or destroy their economy by any draconian action. A wiser course for the Commission would be simply, as Commissioner Christine Sandoval suggested at the 11 April 2016 pre-conference hearing, to request the SWRCB to extend its CDO sufficiently to allow all of the three currently competitive water-supply projects to run their courses independently. One or two may fall short, including the MPWSP, but, rather than force the issue, Water Plus believes that the SWRCB, as well as the Commission, should allow

competition to determine the supplier of new water for the Monterey Peninsula.

Request 2. Immediate Approval of the Monterey Pipeline. The Monterey pipeline can serve the needs of both desalination and GWR, but the parties to the Joint Motion seek its immediate development, independently of desalination, to accommodate expected imminent implementation of GWR. This argument rests on shaky ground. Though provided the opportunity in cross-examination, no party to the proceeding on A.12-04-019 has questioned the 22 January 2016 testimony of Water Plus indicating that GWR, as proposed, is highly unlikely to materialize in Monterey County for reasons of unreliability, excessive cost, and danger to public health. The implication is clear. No need exists to accelerate the development of the Monterey pipeline.

At the 11 April 2016 pre-conference hearing, Commissioner Sandoval also suggested that parties to the proceeding come forward with new ideas for supplying water to the Monterey Peninsula. As an example, she proposed condensation of water in the air, which would appear particularly suitable to a seaside community with all its morning fog and dew. One of the frequent attendants to the weekly Water Plus meetings (Myrleen Fisher) has suggested yet another idea, one which would also obviate the need for the Monterey pipeline. That is for Monterey Peninsula ratepayers to pay the full cost of the

development of the pipeline joining lakes Nacimiento and San Antonio in return for 10,000 or so acre-feet of water from the project per year. That cost could be considerably lower than the cost of any of the currently competitive water-supply projects. These possibilities again argue against any need for the immediate development or, indeed, any development of the Monterey pipeline.

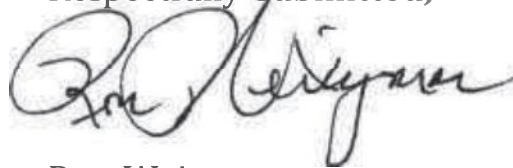
Request 3. Cal Am's Financing of the Monterey Pipeline. Many people on the Monterey Peninsula have weighed in on the issue of who should own the Monterey pipeline if it is built to serve GWR, with no assurance that it will also, at a later time, serve desalination. The consensus appears to favor that the pipeline be part of the GWR project since that project is the motivation to build the pipeline now. Cal Am, of course, would prefer to build and own the pipeline because its shareholders would earn profit on its equity. The argument in favor of Cal Am is that GWR would be a component of its water-supply project, together with desalination. Yet, GWR has included the Monterey pipeline in its Environmental Impact Report ("EIR") while Cal Am has yet to circulate even a draft EIR. Separation of the two project components, as requested in the Joint Motion, would indeed seem to constitute a convincing argument against Cal Am ownership of the Monterey

pipeline. Separation means that GWR could proceed independently of desalination which, as proposed in the MPWSP, may never materialize.

For these reasons, Water Plus urges the Commission to deny the Joint Motion for a Separate Phase 2 Decision.

Dated April 20, 2016

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ron Weitzman". The signature is fluid and cursive, with the first name "Ron" being more prominent than the last name "Weitzman".

Ron Weitzman
President, Water Plus